

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 CPR-01 OPR-02 SY-05
A-01 INT-05 NSCE-00 SSO-00 USIE-00 INRE-00 FEA-01
/092 W

-----240359Z 068423 /70

O R 240240Z MAR 77
FM AMEMBASSY QUITO
TO SECSTATE WASHDC NIACT IMMEDIATE 3636
INFO AMCONSUL GUAYAQUIL
AMEMBASSY LIMA

C O N F I D E N T I A L QUITO 1896

DELIVER OPENING OF BUSINESS MARCH 24

LIMA: PLEASE PASS TO AMB BLOOMFIELD

E.O. 11652: GDS
TAGS: EINV, ENRG, PFOR, EC
SUBJECT: GOE TRYING FOR IMMEDIATE SIGNING OF GULF SETTLEMENT,
BUT ON CONDITIONS UNACCEPTABLE TO GULF

REF: QUITO 1724

1. BEGIN SUMMARY. THE GOE EVIDENTLY HAS BEEN ATTEMPTING TO HAVE THE GULF AGREEMENT (CONVENIO) SIGNED BEFORE MARCH 24, IN RESPONSE TO THE CHARGE'S RECENT APPROACH TO AYALA, AND HAS REMOVED SOME ROADBLOCKS BY ALLOWING U.S. JURISDICTION ON THE LETTERS OF CREDIT AND BY WITHDRAWING CEPE'S DEMAND THAT MARC RICH PAY CEPE FOR THE "RUTH" CARGO. HOWEVER, CEPE AND THE FINANCE MINISTRY ARE INSISTING THAT CERTAIN MATTERS (NOT COVERED BY THE CONVENIO) BE SETTLED AT THE SAME TIME THE CONVENIO IS SIGNED; WHILE GULF VIEWS THE GOE'S INSISTENCE ON THESE
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MATTERS TO BE NEW ROADBLOCKS, AND IS INSISTING THAT THESE MATTERS BE DISCUSSED ONLY AFTER THE CONVENIO IS SIGNED. IN ANY CASE IT APPEARS THE GOE CANNOT SIGN THE CONVENIO WITHIN THE NEXT FEW DAYS DUE TO OTHER COMPLICATIONS. END SUMMARY.

2. EVIDENTLY DUE TO THE CHARGE'S CALL ON SUBSECRETARY AYALA ON MARCH 14, TOP GOE OFFICIALS APPARENTLY GAVE INSTRUCTIONS

PROMPTLY AFTERWARD THAT THE GULF AGREEMENT WAS TO BE SIGNED BY MARCH 24 (THE DATE ON WHICH AYALA IS TO CALL AT STATE TO DISCUSS GOE'S ARMS REQUIREMENTS). FINMIN SEVILLA TOLD LOCAL GULF MANAGER JACK O'BRIEN THAT THE AGREEMENT WOULD BE SIGNED BY THAT DATE, AND THE GOE LEAKED WORD TO THE PRESS THAT SIGNING WAS IMMINENT. TWO OF THE EXISTING ROADBLOCKS WERE IMMEDIATELY REMOVED: THE ATTORNEY GENERAL AGREED TO U.S. JURISDICTION FOR THE \$35 MILLION LETTERS OF CREDIT, AND CEPE AGREED TO WITHDRAW ITS DEMAND THAT MARCH RICH PAY FOR THE "RUTH" CARGO.

3. O'BRIEN HAS REPORTED TO EMBASSY, HOWEVER, THAT CEPE AND THE FINANCE MINISTRY HAVE BROUGHT UP NEW CONDITIONS FOR THE SIGNING OF THE AGREEMENT, AND GULF HAS DECIDED TO STAND FIRM. GULF MET WITH REPRESENTATIVES OF CEPE AND THE DIRECTORATE OF HYDRO-CARBONS (DGH) MARCH 18 FOR LENGTHY DISCUSSIONS REGARDING (A) GULF'S INVENTORY OF CRUDE OIL AT THE TIME OF THE "RUTH" SUIT, AND (B) SETTLEMENT OF DECREE 285. O'BRIEN SAID THE UPSHOT OF THE CONVERSATION WAS THAT THE DGH HAS RAISED THE ANTE ON SETTLEMENT OF DECREE 285 BY SEVERAL HUNDRED THOUSAND BARRELS (NOW CLAIMING 1.9 MILLION IN TOTAL) AND IS TRYING TO PROVE THAT CEPE HAD SUFFICIENT STOCK TO LOAD THE TANKER "RUTH"--WHICH WOULD LEAVE GULF OPEN TO CLAIMS RE THE GOE'S LEGAL AND OTHER COSTS RESULTING FROM THE "RUTH" SUIT. O'BRIEN SAID THE COMPLICATED PROBLEM OF STOCK DETERMINATION WOULD TAKE MONTHS TO SOLVE AND WOULD LONG DELAY SIGNING OF THE AGREEMENT.

4. ON ORDERS FROM CORAL GABLES, O'BRIEN REPORTED BACK TO CEPE THAT GULF REFUSES TO DISCUSS THESE PROBLEMS UNTIL THE CONFIDENTIAL

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AGREEMENT IS SIGNED. GULF ALSO INFORMED CEPE THAT GULF WANTS THE FACTS OF THIS DISPUTE OVER PAST AND PRESENT STOCKS TO BE DETERMINED BY AN EXTERNAL AUDITOR. CEPE MANAGER MIRANDA FIRMLY REJECTED GULF'S PROPOSAL, ASSERTING THERE IS NO REASON FOR CEPE TO SUBMIT ITS FINDINGS TO EXTERNAL AUDIT.

5. FINANCE MINISTER SEVILLA ALSO ASSERTED TO GULF ON MARCH 21 THAT DURING 1975 THE GOE UNDERRETAINED ROYALTIES FROM GULF'S DEPOSITS BY SOME \$12 MILLION, BUT HE ALLOWED THAT THE GOE HAD OVERRETAINED ON INCOME TAX. SEVILLA AGREED WITH GULF THAT THE OVERRETENTIONS AND THE UNDERRETENTIONS SHOULD BE PAID SIMULTANEOUSLY, AND SUGGESTED THAT THE DETERMINATION OF THESE TWO AMOUNTS BE MADE BY THE TAX DEPARTMENT IN THE FINANCE MINISTRY. IF GULF IS NOT SATISFIED WITH THE DECISION OF THE TAX DEPARTMENT, SEVILLA SAID GULF CAN APPEAL TO THE ECUADOREAN TAX COURT. SEVILLA ALSO SUGGESTED THAT BOTH PARTIES TAKE OUT CONFIRMED LETTERS OF CREDIT FOR \$14 MILLION SUBJECT TO THE DECISIONS OF THE TAX COURT.

6. O'BRIEN REPORTED TO THE EMBASSY THAT GULF HAS NO CONFIDENCE IN THE TAX COURT AND IN ANY CASE VIEWS THIS LATEST DEVELOPMENT AS JUST ANOTHER DELAYING TACTIC ON THE PART OF THE

GOVERNMENT. (THE CONVENIO SAYS ONLY THAT TAX DECISIONS ARE SUBJECT TO ECUADOREAN LAW. GULF FEELS THAT A CONFIRMED LETTER OF CREDIT WOULD BE A TEMPTATION TO THE COURT- WHICH, GULF HAS LEARNED, HAS PROVEN CORRUPTIBLE AND SUBJECT TO POLITICAL PRESSURES -- TO MAKE A "FINDING" THAT GULF OWES THE GOE THE FULL AMOUNT COVERED BY THE LETTER OF CREDIT.)

7. O'BRIEN NOTIFIED THE SUBSECRETARY OF FINANCE (SEVILLA WAS UNAVAILABLE) ON MARCH 22 OF GULF'S INSISTENCE ON SIGNING OF THE AGREEMENT BEFORE DISCUSSION OF THE UNDERRETENTIONS. O'BRIEN REPORTED THAT THE SUBSECRETARY "PANICKED" AND ASKED IF GULF COULD TAKE OUT THE LETTER OF CREDIT IMMEDIATELY ON SIGNING OF THE CONVENIO, TO WHICH O'BRIEN RESPONDED THAT GULF CONFIDENTIAL

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HAS SERIOUS OBJECTIONS TO THE PROPOSED LETTERS OF CREDIT, AND WOULD HOLD NO FURTHER DISCUSSIONS UNTIL THE CONVENIO IS SIGNED.

8. SEVILLA HAS REFUSED TO MEET PERSONALLY WITH O'BRIEN OR WITH THE CHARGE BUT HAS ASKED FOR AN APPOINTMENT WITH THE AMBASSADOR UPON THE LATTER'S RETURN TO QUITO. EMBASSY HAS DECIDED IT WOULD NOT BE USEFUL TO GO OVER SEVILLA'S HEAD. OTHER PROBLEMS, SUCH AS FINAL APPROVAL OF THE LETTERS OF CREDIT BY BOTH PARTIES, AND THE ABSENCE OF THE LOCAL BANK OF AMERICA MANAGER WHOSE PERSONAL APPROVAL WILL BE NECESSARY FOR THE LETTERS OF CREDIT, IN ANY CASE PREVENT SIGNING THIS WEEK. CORR

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DISPUTE SETTLEMENT, COMPENSATION, AGREEMENTS
Control Number: n/a
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977QUITO01896
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
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From: QUITO
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Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 QUITO 1724
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3008258
Secure: OPEN
Status: NATIVE
Subject: GOE TRYING FOR IMMEDIATE SIGNING OF GULF SETTLEMENT, BUT ON CONDITIONS UNACCEPTABLE TO GULF
TAGS: EINV, ENRG, PFOR, EC, GULF OIL
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ddad61b2-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009